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Bank Indonesia to prohibit use of bitcoin, other cryptocurrencies from 2018

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A cyclist passes the entrance to the La Maison du Bitcoin bank in Paris, France, on Thursday, Nov. 23, 2017.
Photographer: Christophe Morin/Bloomberg

Shiwen Yap (<https://www.dealstreetasia.com/author/shiwenyap/>).

December 5, 2017

Indonesia is set to prohibit the use of cryptocurrencies within the nation. This will see Jakarta ban payment providers from collaborating with parties and platform that “facilitate digital currency transactions”.

These new rules, which will be issued in 2018, will include financial technology (fintech) enterprises and startups.

A report (<http://www.pikiran-rakyat.com/ekonomi/2017/11/29/bi-akan-buat-aturan-pelarangan-Bitcoin-414761>) in *Pikiran Rakyat* indicates that Agus Martowardojo, Governor of Bank Indonesia, announced the move at an annual meeting last week, with the decision rooted in a bid to protect the sovereignty of the Indonesian rupiah, the country’s fiat currency.

Bitcoin, like other digital currencies, is a decentralised virtual currency with a bidirectional flow scheme that can be traded at cryptocurrency exchanges for fiat currencies. The two most popular digital currencies worldwide are Bitcoin and Ethereum.

How this will impact investments such as **East Ventures' recent funding in Bitcoin.co.id** (<https://www.dealstreetasia.com/stories/indonesia-east-ventures-bitcoin-co-id-87055/>) as well as the broader cryptocurrency market in Southeast Asia's largest economy is yet to be determined.

Stevan Suhadi, the founder of Block Link Labs, said, "I haven't read too much into the reasoning why (Bank Indonesia is planning to ban cryptocurrencies), but I guess, similar to what happened in other countries, it's understandable from the capital control perspective. But I'm also very confident that the Indonesian government is very aware of the difference between blockchain and bitcoin."

"Because blockchain has far greater applications than just bitcoin, having spoken to a few people I think they do know the difference and I think the minister here also understands the difference between blockchain and bitcoin. So bitcoin in some parts of it might be in contention that's why the Indonesian government is looking to regulate it a little bit."

Industry impact

In October, Indonesian payment platforms Toko Bitcoin and Bitbayar decided to close down voluntarily to comply with current regulations, rather than at the direct request of authorities. Since mid-2015, **Bank Indonesia has discouraged the use of bitcoin** (<http://www.newsbtc.com/2015/06/19/bank-of-indonesia-discourages-use-of-bitcoin/>) and warned against its use, stating that it violates Indonesian laws.

The latest ban will see all transactions using a currency not recognised by Jakarta illegal, whether by an organisation or individual, according to local newspaper tirto.id. Oscar Dermawan, CEO of Bitcoin Indonesia, has criticised the decision.

Bitcoin volumes in Indonesia are low compared to Japan, South Korea and China. Indonesia sees between \$30,000 to \$50,000 worth of transactions daily across a population of 261.1 million people. Of these, only 60 million Indonesians are estimated to own bank accounts.

The ban extends to include "arbitrage opportunities, unhealthy business practices and business controls" related to cryptocurrencies that operate beyond the legal reach of Jakarta, with the rationale being they could damage financial infrastructure within Indonesia.

Bank Indonesia plans to collect data on financial technology and digital commerce in order to create a balanced economic policy. The central bank is far keener on blockchain technology and its distributed ledger aspect, rather than virtual currencies themselves.

Indonesia's Communications and Information Minister, Rudiantara, commented: "Blockchain is something unavoidable and I fully support the technology. It enables transparency in a lot of things, for example, in transferring money it enables us to know where the money has been. It would ease the Corruption Eradication Commission (KPK)'s job."

Indonesia's bitcoin-less future

Indonesia's central bank argues that banning cryptocurrencies can prevent undetectable flows of money related to criminal activity, money laundering and terrorist financing. However, this is unlikely to **impact the systemic corruption in Indonesia's government sector** (<https://www.indonesia-investments.com/business/risks/corruption/item235?>), which presumably uses conventional banking infrastructure.

Rudiantara adds, "Now, I agree with the central bank to ban bitcoin (and other cryptocurrencies) because it would create 'black economy'. We don't know who's behind Bitcoin, and it's now being traded as a commodity. I can buy Bitcoin for such amount today, and tomorrow's price will be totally different and no one knows where that comes from."

However, the US bank JPMorgan Chase had to **pay an \$88.3-million fine to the US government in 2011 for violating sanctions** (<https://www.cnbc.com/id/44276107>) – prior to the growth and traction of bitcoin and cryptocurrency sector – while in 2009, research indicated that **bank notes from Canada, Brazil and the US were contaminated with traces of cocaine** (<https://www.scientificamerican.com/article/cocaine-contaminates-majority-of-american-currency/>).

While the digital economy and digital technology is of great interest to Jakarta – Indonesia aims to become the largest digital economy in Southeast Asia by 2020, with plans to reach an online business value of \$130 billion with an annual growth of 50 percent – cryptocurrencies are **treated with significant scepticism** (<https://coconuts.co/jakarta/news/indonesia-ban-bitcoin-value-popular-cryptocurrency-soars-us10000/>) due to the uncertainty of its economic model.

Introducing a full ban on cryptocurrencies may also be counterproductive to goals of **financial inclusion in an emerging market** (<http://www.cgap.org/blog/digital-currencies-and-financial-inclusion-revisited>) like Indonesia, given the proliferation of smartphones in Indonesia and the growth of its digital economy.

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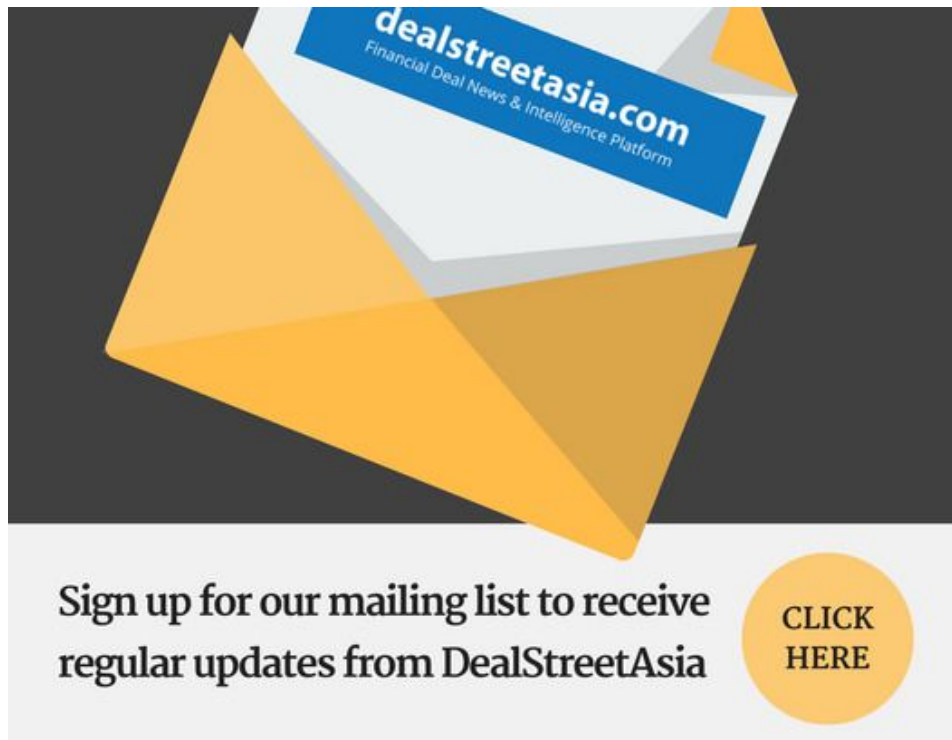
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